



Minnesota FAIR Plan

INVESTMENT POLICY

OBJECTIVES

The general objectives of the Minnesota FAIR Plan investment policy shall be to provide an orderly schedule of maturities and to maximize investment return without undue risk.

ACCOUNTS FOR TRADING AND/OR MARGIN PURPOSES

There will be no accounts maintained in the name of or kept on behalf of the MN FAIR Plan for the purpose of trading in the securities markets. There will be no margin accounts maintained in the name of or maintained on behalf of the MN FAIR Plan for the purpose of acquisition of government securities on margin.

PROHIBITED ACTIONS

No person will place or cause to be placed any of the following security investment options on behalf of or in favor of MN FAIR Plan: Hedging activities and other uses of futures, forwards, puts, calls, margins and other financial instruments.

EXCEPTIONS TO MN FAIR PLAN'S INVESTMENT POLICY

No person will place a purchase order on any security that does not meet the requirements of this guideline. The Board of Directors may, at a special or regular meeting, authorize investments that are not contained within this policy. No purchase order for a prohibited investment is to be placed prior to the granting of authority by the Board.

INSURED BANK ACCOUNTS

No deposit relationship will be maintained with any financial institution in excess of the FDIC insured limit unless the institution executes a repurchase agreement on U.S. Government Securities or pledges a deposit guaranty bond.

The U. S. Government Securities represented by the repurchase agreement must conform to the policy statement regarding the maturity and quality.

The insurance company issuing a deposit guaranty bond must carry a A. M. Best (or its equivalent) rating of at least A+.

AUTHORITY TO HANDLE INVESTMENTS

The MN FAIR Plan Executive Director shall be authorized to buy, sell, or exchange securities, except the purchasing of corporate obligations. The purchasing of corporate obligations shall be approved by a majority vote of the Governing Board prior to placing an order for such an investment.

All securities owned by the MN FAIR Plan will be maintained in the Safekeeping Department of a commercial bank or brokerage house. All transactions shall be fully disclosed to the full Board at the regular meeting immediately following the purchase, sale or exchange.

PROVISION FOR ADEQUATE CASH FLOW, TIMING OF MATURITIES AND ASSET QUALITY

LIQUIDITY

One of the primary sources of liquidity is the cash flow recognized from the collection of insurance premiums. Insurance policies are issued by MN FAIR Plan on an ongoing basis resulting in the receipt of insurance payments on a daily basis.

Other sources of primary liquidity will be bank balances, money market investments, and obligations of the United States Government that carry the full faith and backing of the United States Treasury, either directly or indirectly.

A further source of liquidity comes from the statutory authority granted MN FAIR Plan to assess property insurance companies admitted to the State of Minnesota for MN FAIR Plan operating losses.

MATURITY SCHEDULING

Investing of the excess funds of the MN FAIR Plan shall be done in such a manner so as to provide sufficient cash to cover cash flow shortfalls resulting from operating expenses and budgeted claim payments.

Purchases of securities will, generally, not exceed the following guidelines:

1. U.S. GOVERNMENT SECURITIES:

A. Stated maturity, at time of purchase, should not exceed twelve years.

2. U.S. AGENCY SECURITIES:

A. Stated maturity, at time of purchase, should not exceed twelve years.

3. EXCEPTIONS:

A. Securities that have a stated maturity schedule of greater than twelve years and that have been approved by the Board of Directors at a regular or special meeting shall be construed to have met the intent of this policy statement and will be considered to be a part of the MN FAIR Plan's core investments.

B. Investments in pools of residential mortgages that carry the full faith of the U.S. Treasury, either directly or indirectly, shall be considered to have met the intent of this policy statement if, at the time of purchase, the securities:

1. Have an average life of twelve years or less, and
2. Provide for the monthly payment of interest and principal on the obligation.

4. CERTIFICATES OF DEPOSIT:

A. Should not exceed a stated maturity of twenty-four months, and;

B. Must meet the requirement of this policy regarding balances maintained with a depository institution in excess of FDIC coverage.

1. Excess balances will be determined by summing the principal invested and the maximum unpaid accrued interest that will be outstanding at any time

5. STATE AND POLITICAL SUB-DIVISIONS:

A. May be purchased with the maturity from date of issue not to exceed twelve years.

B. Will be bank qualified as to quality with a Moody (or its equivalent) rating of BAA or better. Local issues may be purchased without a rating upon approval of the full Board at a regular or special meeting.

The maximum percentage of municipal securities held will not exceed twenty per cent of the total securities portfolio except by approval of the full Board at a special or regular meeting.

CASH RESERVES

It shall be the policy of the MN FAIR Plan to maintain balances with an insured commercial bank in the minimum amount required by the FAIR Plan Cash Reserve Policy.

SECURITIES AS A PERCENTAGE OF ASSETS

It is the position of the Board that percentage designations as a total of assets will not be made.

Maturity scheduling is not to be driven by yield considerations. Rather, primary emphasis is to be placed on proper maturity date placement for liquidity purposes with the MN FAIR Plan then seeking the highest possible return on investment within that maturity range.

ASSET VALUES

All investments purchased within the guidelines contained herein, or purchased outside the guidelines under special authority and direction of the Board of Directors, will be placed on MN FAIR Plan's books and carried at cost.

Securities purchased at premium will be initially placed on MN FAIR Plan's books at cost with the premium amortized in even installments monthly over the stated life of the instrument.

Securities purchased at discount will be initially placed on MN FAIR Plan's books at cost with the discount value accreted in even installments monthly over the stated life of the instrument.

Securities that would be classified as trading account securities will be constantly carried at the lower of cost or market with the books of the MN FAIR Plan adjusted on a monthly basis to reflect the lower value.

By order of: Governing Board MN FAIR Plan.

Revised 12-10-2010